

**The Business Support Project - *FIRMA 2000*
(Project Number 181-0023-C-00-6333-00)**

**ANNUAL REPORT '96-'97
and
QUARTERLY PROGRESS REPORT IV
(4th Quarter, July-September 1997)**

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**by
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ANNUAL REPORT '96-'97

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(4th Quarter, July-September 1997)

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LIST OF ACRONYMS

ACDI	Agricultural Cooperative Development International
AMEG	American Manufacturers Export Group
BIC	Business Information Center Project (USAID/DAI)
BSO	Business Support Organization
BSP	Business Support Project (see also FIRMA 2000)
CARESAC	CARE Small Business Assistance Corporation
CBDP	Cooperative Bank Development Project (USAID/ACDI)
CDC	Citizen's Democracy Corps

COP	Chief of Party
FDPA	Foundation for the Development of Polish Agriculture
FIRMA 2000	Polish name for The Business Support Project (BSP)
FSL	Financial Services Limited
IESC	International Executive Service Corps
PBAN	Polish Business Advisory Network
PW	Price Waterhouse
QPR	Quarterly Progress Report
SMEF	Polish Foundation for the Promotion and Development of Small and Medium Enterprises
SMEs	Small and Medium Enterprises
USAID	United States Agency for International Development
USE	US expert (VOCA volunteer expert)
VOCA	Volunteers in Overseas Cooperative Assistance

I. EXECUTIVE SUMMARY

A. OVERVIEW OF THE FIRST YEAR OF OPERATION

Some important observations. Following one year of operation, there are some key observations about the BSOs in the *FIRMA 2000* network relating to how they think and implement their consulting activities. Almost without exception, the for-profit consulting firms have been the first to respond to the opportunities offered by *Firma 2000* both in terms of defining their technical assistance needs and requesting assistance and in taking full advantage of program offerings such as the SME trainings and the Price Waterhouse trainings. And, the for-profits not only dominate the list of BSOs which have reached financial self-sufficiency (10 of 13 or 77%) but these top BSO performers are outpacing the weakest BSO performers to such a great extent that we now must substitute median averages with mean averages to better reflect the characteristics of the *FIRMA 2000* BSO population (See Annex A, Quarterly Performance Monitoring Report of the Chief of Party).

Many of the BSOs are experiencing problems in terms of attracting an adequate volume of fee-for-service SME clients. These problems are related to the BSOs' generally poor outreach and marketing efforts which are exacerbated by a poor understanding of the characteristics of the SME sector. For example, many of the BSOs find it difficult articulating to their clients what their service line is and additionally they have a poor concept of defining a target market for a particular service. Few have well developed marketing strategies and fewer still have marketing materials that successfully promote their service line. *FIRMA 2000* is responding to build these skills of the BSOs through targeted training and technical assistance.

There is also evidence that the SME market is very sensitive to the cost of consulting services. The final cost of a service has two contributing factors – price per unit and duration of service. While the price per unit appears to not be an obstacle to selling the service, the duration of an assignment often makes the service unaffordable to the SME. In deference to the USAID/ACDI prime contract which states that “an advisor should not spend less than one month at a firm unless it is done in conjunction with TA provided to another SME client,” we have been proposing to the BSOs that a minimum duration for an assignment utilizing a volunteer should be two weeks with each volunteer working on at least two SME assignments. However, a two-week assignment translates into approximately \$750 on average for the U.S. volunteer per diem costs, not including the negotiated fee for the Polish consultant and the BSO. Total fees for these assignments have been ranging from \$1,200 to \$1,700. Even if the BSO recaptured none of its own costs, the minimum threshold of \$750 for the U.S. volunteer, is rather steep for many SMEs.

This speaks to the same problem that we face in selling consulting services to small firms in the U.S.; i.e., it is difficult to convince a small firm with limited resources to commit relatively large sums of money for consulting services unless they can be certain of the value. In an effort to demonstrate value, we have redesigned our approach and are helping our BSOs provide training and smaller “taster” services (focused, short-term services with very precise deliverables) as a prelude to selling clients longer-term, more complex consulting projects (see Annex B “Menu of Technical Service Offerings and Sample Deliverables”).

Although poor outreach and marketing efforts and service cost may be the primary contributors to the overall low volume of business among the BSOs, the underutilization of *FIRMA 2000*'s technical assistance resources for SMEs appears to have other and more subtle causes. Using

BSOs as intermediaries for U.S. technical assistance has been a challenge. For example, many of the BSOs continue to express that they don't really understand how a U.S. volunteer expert can

add value to their clients beyond what they themselves can offer their clients. This is despite *FIRMA 2000*'s extensive efforts to provide numerous examples of highly successful technical assistance projects with references from very satisfied SME clients here in Poland. Interestingly, when *FIRMA 2000* staff make a presentation to a group of a BSO's prospective clients and then help the BSO follow-up with a one-on-one visit, it typically results in the client making application for assistance. This discrepancy between *FIRMA 2000* staffs' ability to market to clients and some of the BSOs' ability points to other, more complex, issues.

In some cases, the BSOs' express a general distrust of anyone who is "volunteering" his/her time. In other instances, there appear to be expressions of competition between what a foreign consultant versus a national consultant can really provide to a client. This latter concern is very real and sensitivity to this issue is critical. We must make sure that *FIRMA 2000* does not inadvertently communicate to the BSOs' clients that the Polish consultants are "trainees" and therefore "less than adequate" to meet their needs. This, of course, would severely undermine the BSOs' credibility and without credibility in the marketplace, the BSOs will never become sustainable. Access to U.S. consultants and other *FIRMA 2000* resources must be marketed as a "widening" of the BSOs' resources, not a substitute or a crutch.

Of greatest importance, we have to keep in mind that the BSOs are *FIRMA 2000*'s **primary** clients and the SMEs are the BSO's **primary** clients, not *FIRMA 2000*'s. If we continue to truly address the BSOs' interests and needs in these terms, then we can build the relationships of trust which are necessary to help the BSOs build their consulting practices. To assist this process, a new organizational structure has been implemented whereby the field staff team has been expanded to five project staff, consisting of only senior level Polish staff with each assigned personal responsibility to work closely with five to six BSOs. Under the direct supervision of the COP, the field staff now help orchestrate all BSO technical assistance and training, including oversight of the volunteers. Although only four weeks under the new structure, this more personalized and Polish-led approach to the BSOs is already yielding significant benefits for the project (see Annex C, Revised *FIRMA 2000* Organizational Structure).

One clear lesson we have learned from not only the thorough selection process of BSOs and consultants but more recently from our consultant training workshops is that we have a huge range of experience and skills represented among project participants with a large percentage of the consultants (69%) having less than three year's consulting experience. 46% of all of the consultants have less than one year's consulting experience (see Annex D for Consultant Profile Statistics). The likely explanation for why the participating consultants tend to be younger and less experienced is attributable to our own selection criteria which requires English language proficiency. While English is undoubtedly fast becoming an increasingly important skill, (e.g., to conduct research using the Internet to support business consulting activities), it does not alter the current reality that the majority of the consultants with whom we are working have skill levels which qualify them to provide only the simplest of consulting services. By the same token, only 61% of the participating consultants have English language proficiency at a level enabling them to function well as interpreters for the U.S. volunteer experts.

This raises a number of issues relating to the terms and conditions under which the BSOs can access and utilize *FIRMA 2000*'s resources. For example, it was assumed that a consulting project drawing on *FIRMA 2000* resources would always pair a U.S. expert with only *one* BSO

Polish consultant. However, in practice, BSOs frequently utilize a team approach for delivering consulting services, particularly when the project is more complex, involving more than one aspect of the business. This also enables the BSOs to pair their junior level consultants with more senior level consultants which serves to mitigate the English translation problem. Given the dearth of experienced and qualified consultants with adequate English speaking capabilities the teamed rather than paired approach is a workable solution. A BSOs' more senior level yet non-English

speaking consultant could be teamed with a junior level consultant who could serve as interpreter for the U.S. volunteer expert. The fact that the project is providing consulting training only to those ninety (90) consultants selected and not to all the consultants who contribute to the work of the BSOs remains an issue requiring greater attention.

English-language issues aside, the wide range of skills and experience among the participating consultants makes training of groups of consultants more difficult because they are not able to grasp or process the training information at the same rate or to the same depth. The courses that we are offering through Price Waterhouse will need to allow for and accommodate these differences in skills, experience and expectations. It has been recommended that we create two levels of the core workshops, a standard level and an "introductory" level.

Based on the BSO assessments and enhancement plans and direct feedback from consultants, we know that many critical areas of need within the BSOs are areas which are addressed in the Price Waterhouse training workshops. The challenge, however, for many BSOs and consultants is to leverage the knowledge they gain in the workshops in order to implement new work procedures or enhance existing ones. In response to this need, we have begun providing follow-on technical assistance to individual and groups of BSOs in the areas of time/resource management, strategic selling and pipeline development, product/market diagnosis and focus, budgeting/financial forecasting, teambuilding and human resource management, to name a few.

Through continued and extensive contact with BSOs, consultants and SMEs, the picture is becoming clearer, albeit much more complex. In many cases BSOs don't know their own client base well. They believe that SMEs need one thing while in fact SMEs have shown they need something altogether different. Or in some cases, SMEs themselves believe they need a certain input to solve a problem which after careful assessment, in fact, demands an alternative intervention. SMEs have convincingly demonstrated, however, that they want good value for their money. In general SMEs have responded most strongly to short, focused, high value inputs that aid them in dealing with a specific need with minimal investment of time and money to get that service. These short interventions are not for every SME, some SMEs will continue to need medium-term technical assistance of between 2 to 4 weeks, but this itself requires very careful coordination and management of the resource to achieve the greatest return for the SME as the associated costs are significantly higher to the firm.

Polish BSOs and SMEs are resilient and innovative. As the *FIRMA 2000* project makes greater inroads in providing services to these two groups and developing stronger ties, each is demonstrating more willingness and greater capacity to use project resources more effectively as is illustrated in the BSO TA and Training and SME Status Charts in Annexes E and F.

Some notable achievements. During the first year some important achievements outside of meeting project targets have been realized, these include:

At the end of the first year of operations, thirteen BSOs are fully financially self-sufficient with no dependency on external grant funding and another two BSOs are near (between 80-99%) break-even. [Note: Financial self-sufficiency is achieved when total income from operations (grant income is not included as operational income) is greater than total BSO expenses.]

FIRMA 2000 has effectively sought out and included both women-led Business Support Organizations (12 of 29 or 41%) and women consultants (31 of 78 or 40%).

There is significantly improved access to BSO, consultant and SME information coming into the project that provides a much better understanding of the needs of BSOs, consultants and SMEs

than previously held. Analysis and application of this information enables *FIRMA 2000* to be far more responsive in meeting needs of these groups.

FIRMA 2000 has developed strategic linkages with several key organizations and institutions serving the SME sector here in Poland – the Foundation for the Promotion and Development of Small and Medium Enterprises, the Department of Economic Strategy of the Ministry of Economy, the Agency for Technology Transfer, CARESBAC, and the Polish Advisory Network, to name a few.

The *FIRMA 2000* newsletter, MIS, has gained a high level of approval from BSOs and SMEs alike. Prior to participation in *FIRMA 2000*, only three BSOs published a newsletter. During the 4th Quarter, 23 of the BSOs published issue # 1 and 25 of the BSOs published Issue # 2 of MIS, the *FIRMA 2000* newsletter. This represents a very large increase (733%) in efforts to disseminate information to SMEs. In year one it was anticipated that only 1,500 SME clients would receive the newsletter, however the BSOs have chosen to distribute the newsletter to over 3,600 SMEs. There have been repeated requests to reprint in other publications the technical inserts which are found in each issue of MIS. The newsletter also has become a cost effective way for a number of collaborators (EXPROM II, CARESBAC, EURO INFO, PAN, Cooperative Bank Development Project, Fundusz Mikro, Foundation for Development of Polish Agriculture, Hong Kong Industrial Technology Center, to name a few) to reach a highly select group of SME decision-makers. Regular columns on regulatory and legal issues help keep SMEs abreast of major policy issues which effect them and provide the BSOs with much needed information to support their advocacy efforts.

Fourteen BSOs regularly advocate for the SME sector, investing 509 hours to this activity during the 4th quarter alone. This makes the *FIRMA 2000* network of BSOs and ideal target group to assist with policy reform.

Work with the Department of Economic Strategy of the Ministry of Economy and the Agency for Technology Transfer has resulted in collaboration on the translation and distribution of "Pathways to Technology," a manual for establishing a technology transfer center. Four of the *FIRMA 2000* BSOs (Mielec, Szczecin, Walbrzych and Gdansk) are currently being targeted as potential technology transfer centers.

Twenty-one BSOs are regularly providing training to SMEs with 2,807 participants in 81 different training sessions during the past nine months. This is in addition to the *FIRMA 2000* sponsored Performance Benchmarking trainings which attracted 150 participants from 95 SMEs.

Thirteen BSOs are currently active as financial intermediaries with 152 loans packaged resulting in 89 loan closings, and 61 equity investments successfully closed with total volume of financing obtained for SMEs at PLN 41,324,058.

FIRMA 2000 is evolving a multi-faceted approach to more effectively deliver services to BSOs, consultants and SMEs. The approach has resulted in a new menu of technical services which the BSOs assess as being in most demand by their SME clients and which *FIRMA 2000* is now offering through short-term technical assistance. Two important anticipated outcomes of SMEs using the technical service menu will be greater exposure and more revenues for BSOs.

And lastly, the diverse activities on the project, and the involvement of US consultants and volunteer experts, has contributed significantly to expanding the small business consulting skills within the *FIRMA 2000* network of BSOs.

Focus for the future. The past year's experience has highlighted several key points for future program focus. These include, training consultants and endowing them with high level technical

competence, then using this process to leverage and enhance BSO consulting service delivery capability from within. Getting BSOs to think and act as a team-based operation with the manager as the coordinator and facilitator, rather than as the sole force driving all BSO activities as is the case in many BSOs at the moment. Fully utilizing the Internet as a low cost, high quality source of up-to-date business information to support BSO consulting activities. Focusing on certain specialized services such as capital sourcing and loan/investment packaging, ISO 9000 and Activity Based Costing that bring high value to the SME sector, particularly the manufacturing sector. And lastly, assisting in scaling-up the SME pipeline of projects that every BSO needs to have in place to become programmatically and financially sustainable.

B. SUMMARY OF PROGRAM ACTIVITIES

BSO Support

The final selection of the initial 30 BSOs was completed during this quarter (see Annex G for BSO Selection Matrix and Map). Of the 33 BSOs recommended and approved by USAID, one discontinued participation due to the realization that the criteria for participation is no longer consistent with the direction in which the BSO is going; and two BSOs, the Swidnica and Mielec business support centers, decided to join efforts and collaborate with Regional Development Agencies in their respective areas. All parties agreed that these strategic alliances with the RDAs as the lead agencies would result in much stronger institutional support of the SME sector. Final BSO candidates for the replacement of the thirtieth BSO are being discussed at this time. Final selection of the BSOs enabled the completion of BSO assessments and the issuance/receipt of signed participation agreements which enables the scale-up delivery of training and technical assistance, indeed the formalizing of *FIRMA 2000's* working relations with the BSOs (see Annex H, BSO Status Chart).

An important change to have taken place regarding assistance to BSOs is the reorganization of program staff as the BSOs' primary technical support. Each of five field staff are personally responsible from five to six BSOs (see Annex H, BSO Status Chart). The purpose of individual involvement with their respective BSOs is to establish a more in-depth working relationship with each BSO and by this to be more responsive to their unique problems and needs. The objective is to deliver high quality assistance to BSOs that makes them more capable to deliver high quality

business services to their clients, and from this, to achieve a greater pipeline of client requests for services resulting in long-term financial self-sufficiency.

Following months of working closely with the BSOs, it is clear that there is a wide range in terms of their respective capabilities and capacity. There are some for-profit BSOs that have demonstrated strong capabilities in developing and delivering highly responsive services to small and medium enterprises (SMEs). The majority of the BSOs, whether for-profit or not-for-profit, however, suffer from several chronic problems effecting their ability to evolve into programmatically and financially self-sufficient entities effectively serving the SME sector. Some of these problems include a remedial level of consulting skills amongst their consultants as evidenced by their limited ability to diagnose firm-based problems and offer corrective and value-added technical services (see Annex IJ, Price Waterhouse Training Evaluation Report). Marketing and promotion of many BSOs' service lines is inadequate. And finally, there is the critical inability for some BSOs to create and maintain an adequate pipeline of client projects at a level sufficient to become sustainable in the long-term.

Clearly there is a larger than expected need for the transfer of technical and management skills to BSO managers and consultants. To address this more effectively, as briefly mentioned above *FIRMA 2000* has assigned project staff to individually coordinate the provision of technical assistance inputs. Additionally, Price Waterhouse is systematically structuring their consultant

training to address many of the capability issues noted earlier. Most specifically, they will attempt to leverage greater impact from the results of the consultant training back into the BSO through technical assistance in order to build the BSO from inside. An early objective from this will be to create a consulting culture inside the BSO that stresses a strong team approach and the importance of understanding and using in-house talents and resources more effectively. Additionally, consultants will be encouraged to learn about the strengths of the client in order to address their specific problems and needs with internal resources before looking for external solutions first.

FIRMA 2000 is re-thinking how it can more effectively use its paid consultants and volunteer experts to bring greater value-added technical resources to BSO and SMEs. This will entail having BSOs offer a carefully selected menu of technical services with very precise deliverables as "Tasters" to help sell larger consulting projects to their clients (see Annex B, for Menu of Technical Service Offers and Sample Deliverables). This marketing tool focuses on ten areas of technical assistance most commonly requested with twenty-six clearly defined sample deliverables. Each sample deliverable is based on a minimum three-day engagement of the U.S. volunteer expert at the SME firm. Given the nature of the consulting services in the Menu, it is expected that one volunteer should be able to conduct multiple assignments within a four week period. This does not preclude the BSO, of course, from using a U.S. volunteer on longer SME assignments but by focusing the service and shortening the average duration, it is expected that *FIRMA 2000* will help the SMEs increase their deal flow.

Consultants Selection and Training

Up through the end of the fourth quarter (September 30, 1997), over 300 consultants applied to *FIRMA 2000*. Of these, 183 consultants were interviewed and 78 finally selected. Twelve of the full complement of 90 consultants are still to be selected. Approximately 30 non English- or limited English-speaking, but technically qualified consultants from the interviewee group, are awaiting approval to be accepted by the project. The issue involved is the need for translation during

training and the associated cost to the project. It is, however, firmly believed that the inclusion of these 30 or so consultants will improve the BSOs' capacity and increase impact to firms requesting technical assistance. Final selection of consultants will take place in the next quarter.

The importance of having English-speaking capability on the project serves three important objectives. First, it insures that the US volunteer expert and the SME client have the possibility of communicating at a sufficiently strong level to understand and chart a course for addressing the needs of the firm. Secondly, it allows for a certain amount of information and technical skills transfer from the US volunteer expert to the Polish consultant resulting in new skills development and the strengthening of the BSO's capability to delivery a more comprehensive set of services. Thirdly, English is fast becoming the international business language and as such, valuable information which is necessary to support consulting activities is most usually and readily available in English. This is particularly true with information that can be obtained from the Internet.

However, the reality is that it has been extremely difficult to identify *qualified* consultants who also have English language skills adequate to the challenges and requirements associated with acting as translators. As one can see in Annex D, only 18% of the consultants are considered to have "excellent" English-language skills – the level at which one is most capable of providing translation services. However, another 43% have English language skills which are considered to be "very good" and can adequately function as translators. As mentioned above, most frequently we find that it is the younger consultants who have the best English language skills, but of course, they

also have the least relevant business educational background and consulting experience as evidenced in the graphs in Annex D. While the relatively low skill level of English does not preclude the balance (39%) of the selected consultants from being able to work effectively with the U.S. expert, it does keep them from being able to provide adequate translation services for the client and the U.S. expert. Therefore, to fully support such bi-lingual consulting projects in which the BSO consultant is capable of adding value to the project, the BSOs or the SMEs must often provide supplemental translation services. This can occur by either having two Polish consultants on the project or by simply engaging an interpreter.

In terms of consultant competency, each applicant was requested to assess his/her skills in twenty four areas which are considered important for business consulting. Applicants were asked to rate their skills on a scale of 0 to 5 with "0" representing "no experience," "3" representing "average or good experience" and "5" representing "exceptional experience." Annex D includes the breakout of skills expressed in percentages according to five categories ("0" and "1" ranks have been combined in the graphs and are expressed as "no experience") of rank for the 78 selected *FIRMA 2000* consultants in 14 of the 24 skill areas. From both hands-on experience in the field and training sessions, the general feeling is that a large proportion of consultants lack many of the fundamental skills required for more complex business consulting to firms in the SME sector and this is substantiated by the consultants' own self assessments. For example, in terms of skills that are less than at a basic level, 30% indicate that they are lacking even basic skills relating to analysis of financial data; 36% feel that they are unable to apply financial ratios; 39% cannot prepare cash flow projections; 41% are unable to compute ratios; 27% lack the necessary skills to analyze market data/conditions; 40% are not equipped to conduct market research, 42% have difficulty with analyzing organizational structures; a whopping 69% feel unprepared to analyze production processes/technology and 72% have no or very limited skills associated with using the Internet; and lastly, as our difficulties with getting data bases of prospective clients established has underscored, 68% of the participant consultants are simply unable to construct or manage data bases.

Price Waterhouse's observations during the most recent round of training are that 1) while most have heard of the diagnostic tools presented in the training, few use them and fewer still are able to interpret and provide advice based upon the output of such analysis; 2) there is a hesitance or lack of ability to think creatively and make assumptions based on available information which is necessary for decision-making and advising a client; 3) and the participants consistently demonstrated the inability to take a semi-complex problem or assignment and dissect it into smaller, more discrete problems, therefore, not knowing how or where to start addressing a problem which was presented in a way that a client might ask for assistance.

At least three important conclusions were reached by the Price Waterhouse trainer during the training – the need to structure future training sessions to address the wide range of skills, the need to leverage the results of consultant training back into the BSOs to achieve greater institutional strengthening, and the critical need to cultivate a team culture as part of the BSOs' consulting approach.

SME Technical Assistance

The last quarter's technical activities have shown that SMEs are strongly drawn to shorter more tightly focused technical workshops or one-on-one consultancies and appear far less reluctant to use these sorts of inputs than longer and more costly consultancies. And, not all SMEs need inputs of two to four weeks. Above all, SMEs want inputs that bring good value to their business. SMEs that need longer-term inputs will still be able to request this. However, on the whole, because a key objective is to attract more SMEs to use more BSO services, the focus will be on

short inputs of greater value to more people resulting in increased exposure to the BSO's service delivery capacity. It is anticipated that fewer US volunteer experts may be needed in this scenario, but those coming would be expected to stay for a longer time period to achieve greater numbers of SMEs served.

In terms of cost recovery, it appears that the BSOs are fairing rather well. For example, in the case of Jurmark (a Kutno BSO client), they paid all of the U.S. volunteer expert's hotel and per diems plus an additional 2,760 PLN to cover the BSO's costs; Nicromet (a client of Katowice BSO) covered not only the hotel and per diem of the volunteer but the cost of a translator in addition to a 600 PLN fee for the BSO; Sharp Handmar (a client of Plock BSO) covered all of the hotel and per diem costs of the volunteer plus 4,000 PLN for the BSO. Of the assignments which have been conducted to date, only two have not yielded a financial benefit to the respective BSOs and this was due to the BSOs' use of the U.S. volunteers to establish an initial relationship with the clients. It is expected that the longer term results of these projects will be in follow-on work.

FIRMA 2000 has been strongly advising the BSOs to use training as one of the primary methods for attracting prospective SME clients for consulting services. During this quarter, a great deal of planning and preparation has gone into helping the BSOs improve and expand their SME training programs, utilizing *FIRMA 2000* resources. In addition to the Performance Benchmarking trainings which *FIRMA 2000* co-sponsored with EXPROM II and in which 150 persons participated from 95 SMEs (See Annex K for more details relating to this training), nearly all of the BSOs – 21 of them - have been regularly providing training to SMEs, reporting 2,807 participants in 81 training sessions during the past nine months (See Annex L for training topics and number of participants). Annex M provides a ranking of the BSOs' by total number of participants and staff hours devoted to training, providing us insight as to which BSOs are most active in terms of training. It is not

surprising that there is a correlation between training activities and financial self-sufficiency. Of the ten BSOs most active in training, 70% are financially self-sufficient .

Many BSOs have requested assistance from *FIRMA 2000* to help further develop their training programs. In response, *FIRMA 2000* is organizing the following trainings to be conducted during the next quarter utilizing U.S. trainers: Activity Based Costing, Material Resource Planning, the New Art of Supervision and Time Management, Effective Communications, and Consultative Selling. In addition, work has commenced with Price Waterhouse to develop five courses for SMEs in which BSO consultants will be trained to be the trainers. And lastly, *FIRMA 2000* is surveying the BSOs as well as other knowledgeable parties to identify high quality Polish trainers who can deliver SME trainings for the BSOs.

Project targets

Annex N contains the Annual Workplan Target Tracker and Narrative. Highlights of the targets include:

All 30 BSOs have been selected. However, one recently pulled out leaving 29 participating BSOs. The departed BSO will be replaced with a suitable BSO candidate in the near future.

All BSOs save one have been sent Participation Agreements. The majority have signed and returned these agreements.

All BSOs have participated in the assessment process and have received enhancement plans.

Twelve of the twenty nine BSOs are woman led (41%) and thirty-one of the participating consultants are women (40%).

Nine BSOs have received specialized technical assistance to address a problem unique to their situation with the objective of strengthening the BSO through the process.

Thirteen of the 29 participating BSOs have reached breakeven. This is a 30% increase from the previous reporting period.

Of the 90 consultants needed 78 have been selected, of which 21 participated in the Price Waterhouse "Diagnostic Skills" training and 5 in the pilot "Consulting Skills I" training held last January.

To date *FIRMA 2000* has helped the BSOs make contact with 170 SMEs by means of direct presentations or through *FIRMA 2000* sponsored trainings (e.g., the Performance Benchmarking training). Nineteen prospective clients have been referred by *FIRMA 2000* to BSOs with eight of these resulting in actual consulting engagements.

Twenty-five of the BSOs are currently distributing MIS, the *FIRMA 2000* newsletter, by direct mail to over 3,600 SMEs.

Twenty-one BSOs are regularly providing training to SMEs, reporting 2,807 participants in 81 training sessions between January and September.

Fourteen BSOs are regularly advocating on behalf of the SME sector and have invested 509 hours to this activity during the 4th quarter alone.

Thirteen BSOs are currently active as financial intermediaries with 152 loans packaged resulting in 89 loan closings, and 61 equity investments successfully closed with total volume of all financing obtained for SMEs at PLN 41,324,058.

During this last quarter, it is evident that *FIRMA 2000* has begun to achieve the level of understanding of the BSO and SME environment to package and deliver products and services of increasingly high demand to attract increased interest and use by the BSOs and their clients.

Monitoring and Evaluation

As part of its mission in providing assistance to BSOs and SMEs in Poland, Projekt *Firma 2000* maintains information on each of its clients through a variety of questionnaires. This information has now been consolidated into spreadsheet databases, one for each of the data-gathering instruments we use. This information can now be statistically analyzed to discern potential relationships between different aspects of firm performance as well as gauge aggregate progress of all of our clients and factors affecting that performance. In addition, we have created a three-sheet scoring workbook to rank BSOs in terms of how well they fit our desired profile. This workbook begins with data gathered from each BSO regarding its operations, finances, and so forth. The data is then weighted to produce a score on each item and the scores are then aggregated to yield a composite measure of how well the BSO fits our desired profile. One of the key strengths of this workbook system is that it allows the weights to be changed to reflect different preferences, showing instantaneously the change in BSO rankings which result. The data gathered from the BSOs can also be analyzed statistically to both gauge progress providing hard input into our evaluation efforts, and to aid in planning.

BSO reporting is nearly in full gear now with 23 BSOs providing data for quarters II and III and 25 BSOs reporting at the end of the 4th quarter. With only 20 consultant participation agreements signed by the end of the 4th quarter, however, it is not surprising that we received only 14

consultant reports. Extra effort will be devoted during the next quarter to collecting consultant data because of its importance for project planning. Although we are attempting to follow-up with clients which have received technical assistance involving U.S. volunteers on a quarterly basis, we have not been very successful thusfar. This should be the task of the consultants who helped deliver the service, but in order to make this happen, we will need to convince them that measuring improvements in the performance of their clients translates into very credible marketing material. Making connections between inputs and results is one of the most difficult jobs in business development.

Priority Follow Up

Priority activities that will push the project toward realizing greater numbers of targets in the upcoming quarter include: a) developing a result-focused partnership approach with individual BSOs, b) increasing specialized and concentrated technical assistance to BSOs and SMEs, c) continued consultant training, d) continued SME training, e) leveraging a stronger BSO team approach, f) clarifying BSO product/services and target markets, g) strengthening BSO marketing and

negotiating skills, h) improving consultants' loan packaging skills and BSO/bank linkages, and i) assisting BSOs in developing and maintaining client project backlogs.

Budget and Level of Effort

Of the total project budget of \$ 6,819,998, approximately \$ 1,525,947 has been expended in the first four quarters, or about 22.4%. The remaining total is \$ 5,294,051. Overall level of effort on the project is 7,085 person days of which approximately 3,495 person days, or 49% has been used. (See Annex O and P for more budget and level of effort information).

II. PROGRAM ACTIVITIES

A. Business Support Organizations

Final Approved Group. There are 29 active BSOs participating in the project (see Annex G for a listing of the participating BSOs). BSOs were selected on the basis of their mandate to serve SMEs, year of establishment (age), English language skills, geographic location, business sector served and scale of operation. The key interest was to have on board BSOs that have a clear interest to serve the SME sector with high value products and services and that would deliver services on a cost-covering, business-driven basis.

BSO Classification. In order for *FIRMA 2000* to organize inputs to the BSOs more effectively, all BSOs are in the process of being classified according to a scoring system as being “advanced, intermediate, remedial or critical.” Although preliminary scores indicate that there are already several “advanced” BSOs which have achieved both programmatic and financial sustainability, the majority of BSOs fall into intermediate and remedial categories. Those BSOs classified as “critical” have significant organizational and management deficiencies that put them severely at-risk. There is a high level of concern within *FIRMA 2000* about the survivability of BSOs in the critical classification category. Concern derives from the fact that we want to see them survive, and we will assist them in this process. But the issue is at what cost to the project are we prepared to make certain this happens? That is to say, with the limited resources, can we afford to invest a disproportionate amount of resources in a marginal BSO, or are the flaws so fundamental with critical BSOs that we would put other BSOs in jeopardy attempting to save these? The solution to managing this potential issue is to give a critical BSO a set amount of time with a negotiated work plan which has been agreed to be followed. The workplan will include clear performance targets against which progress will be assessed. BSOs unable to attain these targets will be re-evaluated as to their eligibility to continue participating with *FIRMA 2000*. If continued substantial resources are required and little progress has been made, this is likely to be to the BSO's disadvantage in remaining with BSP.

Technical Assistance to BSOs. Technical assistance assignments were carried out by both U.S. and local experts to address critical risk areas identified during the last quarter. A key advantage in selectively using local experts is their language skills and knowledge of the Polish business sector. For special assignments, very short-term inputs are helpful in providing a BSO with important insights and new energy to unblock a persistent log jam that has kept them from moving forward. Details of BSO technical assistance and training inputs through the 4th quarter are contained in the BSO Technical Assistance and Training Chart in Annex E. This quarter a US local expert, fluent in Polish, provided technical assistance to BSOs in Suwalki, Sandomierz, Walbrzych and Zielona Góra. Technical assistance to these BSOs centered around developing results-focused marketing approaches and strategies for implementing them, identifying the appropriate and/or alternate market niche, and agreeing on the essential elements for effective client marketing such as consultative selling skills. Assistance to Walbrzych was somewhat unique in that it focused on how to develop and manage a local Exhibition and Promotion Center operated under the auspices of the BSO. An important element of that assignment was how to set up and effectively use a client database. Specialized TA relating to Performance Benchmarking was provided to the three BSOs which also hosted the Benchmarking Training Seminars. The first technical assistance input under the new organizational structure that pairs a *FIRMA 2000* staff consultant with an external project consultant received kudos from the BSO with which they worked to help develop a strategic plan.

Team Approach. As our understanding of the problems and needs of the BSOs and their SME clients has broadened, there has been a shift in the way *FIRMA 2000* approaches the BSOs. To

be more responsive in managing communication and inputs to BSOs, five senior-level field staff have been assigned five to six BSOs for which they are personally responsible. Should any team member be out on assignment when their respective BSO calls for assistance, an associate team member would be able to work with that BSO in an appropriate way because he/she will be aware of the activities of all BSOs in their team category. (See Annex H, BSO Status Chart, and Annex E, BSO TA and Training Chart, for more details of staff/BSO assignments).

The objective of the team approach is straightforward; we want to see better communication with each BSO, more continuity in the professional working relationship, more timely follow-up and more results. The outcome of the BSO team management approach will be better assisted BSOs, more satisfied BSOs, BSOs with a greater capacity to delivery high level business services and BSOs programmatically and financially more sustainable over the long-term.

In working with BSOs for the last ten months several key problem areas have surfaced, constraining their effectiveness. Nearly 60% of all BSOs indicate that marketing, client outreach and client follow-up are negatively affecting their ability to develop a pipeline or backlog of SME requests for BSO business services. Yet in many cases BSOs are not able to clearly articulate what services they offer their clients, leaving already suspect clients fearful of not getting good value service for their hard-earned money.

This inability to articulate what it is they do is also reflected in the BSO managers' inability to clearly articulate obstacles confronting them in the operation and management of their respective BSOs. BSOs can readily identify the symptoms of problems but many struggle when asked to identify what is causing the symptoms. This constraint manifests itself in different ways and at different levels in the BSO. For example, BSOs needing technical assistance for themselves or for their SME clients have a hard time developing a scope of work from which *FIRMA 2000* recruits paid consultants and volunteer experts to work with BSOs and/or SMEs. As a result, poorly defined scopes of work often result in mis-communicated needs and expectations concerning results.

As part of the new BSO team approach, the team will work with BSOs in helping them be more clear in defining SOWs for themselves and their clients. Likewise, the *FIRMA 2000* marketing team which will be expanded during the month of January to include four Babson College interns will be working with BSOs to help them systematically develop a marketing strategy and the requisite materials needed to articulate and promote their service lines to clients.

BSO staff development. It is clear that the majority of BSOs see the importance of staff training. Twenty three (23) of the BSOs reported a total of 12,808 hours devoted to professional development activities during the last nine months. Yet, it appears that few do it systematically. In fact, none of the BSOs has a staff development plan. The linkage between staff development and BSO sustainability is critical, particularly in the ever-present context of staff turnover. The goal of the Price Waterhouse training is not only more and better skilled consultants, but linking the consultant training with the development of a BSO team approach in order to increase consultant commitment to their respective BSO and diminish consultant attrition.

BSO Feedback. BSO managers are asked each quarter to provide feedback to *FIRMA 2000*. The following summarizes their responses:

To the question *"How well have we met the needs of your organization?"* 24 BSO managers responded to this question; 87% indicated that *FIRMA 2000* was meeting their needs either "satisfactorially" or "very well"; 8% indicated "not very well."

To the question *"How satisfied are you with the quality of services provided by FIRMA 2000 thusfar?"* There were 21 respondents to this question; 94% indicated either "quite satisfied" or "very satisfied"; and 5% indicated that they were "dissatisfied" with the quality of *FIRMA 2000's* services.

To the question *"How do you rate the training provided by FIRMA 2000 thusfar to you and your BSO staff?"* From the 23 respondents, 5 managers (21%) indicated that this was not applicable because they had not received any training yet, and of the remaining 18 (78%) of the respondents, they all indicated that the training thusfar has been "ok" to "excellent."

To the question *"Which FIRMA 2000 services or assistance do you value most? Least?"* 25 of the BSO managers provided multiple responses to this question:

8 indicated they valued most the trainings for their consultants;

7 indicated the newsletter was of great value;

7 indicated that cooperation with U.S. experts was highly valued; and

6 indicated the trainings organized for SMEs.

Single responses for those services or assistance most valued included "New ideas," "assistance with deal negotiation," "strengthening the potential of the BSO," and "pushing for BSO action."

As for those services and assistance which they least valued,

2 indicated "selection of BSO staff,"

2 indicated "information relating to U.S. consultants,"

1 indicated "financial conditions of cooperation"

1 indicated "seminars" and

1 indicated "documents in English"

Impressions from *FIRMA 2000* program team members, some of which are included below, offer additional insights about the hurdles faced by BSOs with which we work:

- BSOs, like SMEs, are uniquely different and therefore need and appreciate individualized attention.
- There is a keen desire to become self-sufficient but often not a corresponding importance placed on developing client-driven services and targeting those services to a well-defined market.
- The BSO service menu often reflects a BSO's internal staff competence rather than needs of the clients.
- There is especially poor after-service follow up with clients.
- A few BSOs are characterized by poor initiative except when there is *strong FIRMA 2000* follow up.
- Many BSOs themselves do not know how to diagnose their own needs to request technical assistance inputs.

- BSOs are better able to help themselves after *FIRMA 2000* takes the initial step in helping them see where and how project resources can be used.
- The further a BSO gets away from the initial *FIRMA 2000* paperwork, and after successfully using project services, the faster new initiatives move forward.
- A BSO's active involvement in the local community appears to be an important building block for client development.
- BSOs are learning to value and are offering positive feedback on the increasingly personalized relationship with *FIRMA 2000*.

Below is the BSO TargetTracker linking achievements to date with targets required by the project.

BSO Target Tracker

Task	Target Description	Project Target	1997 Target	1997 Actuals				Totals	
				Q 1	Q 2	Q3	Q 4	1997	Cumulative Project %
I. BSO Strengthening									
1. Approve BSOs	# of selected and approved BSOs	30	30	0	10	7	12	29	96%
2. BSO newsletters disseminated (100 clients per BSO)	# of newsletters direct mailed to SMEs	7500	1500	0	0	0	3657	3657	49%
4. BSOs reach full financial self-sufficiency (10)	# of BSO at or above break even	10	0	0	0	10	13	13	130%
5. BSOs achieve near financial self-sufficiency (10)	# of BSOs between 80-99% of break even	10	2	0	0	3	2	2	20%
6. BSO manager business skills training	# of BSO managers completing basic business skills training	30	30	0	0	0	4	4	13%
7. BSO managers complete USA participant training	# of BSO managers completing US participant training	30	3	0	0	0	0	0	0%
8. BSOs conduct SME training workshops/seminars	# of BSOs conducting trainings for SMEs	30	15	nd	15	16	21	21	70%
9. BSOs establish SME databases	# of BSOs establishing and inputting client info into d-base format	30	15	0	0	1	20	20	67%
10. BSP consultant resource database set up	design and establish in d-base format consultant profiles	1	1	0	0	0	0	0	0%

B. Local Business Consultants

This quarter 40 new consultants were selected for a total of 78. Twelve consultants are to be selected next quarter to complete the full compliment of 90. Twenty-one consultants received training in "Diagnostic Tools and Techniques" in late September 1997. The purpose of the Price Waterhouse lead training is to enhance consultants' diagnostic skills in assessing SME firm problems and in recommending solutions. Observations of the Price Waterhouse trainer have been provided above and a detailed evaluation of the training is contained in Annex IJ.

For future trainings to increase impact, PW is considering using the most talented consultant trainees as co-trainers. PW's experience with Pole-to-Pole mentoring is that it generates good results amongst trainees, brings greater value to the training, and transfers skills to local counterparts.

The next round of Consulting Skills I training is scheduled for mid-November. Future training will focus on critical aspects of BSO consulting systems such as time and resource management, pricing, strategic selling and pipeline development, product market diagnosis and focus, budgeting and financial forecasting, team-building and human resource management. The objective will be to

provide a more holistic package of training inputs that helps BSOs provide more effective technical services.

Insights from *FIRMA 2000* field staff offer some additional insights about problems with which consultants struggle:

- Many consultants appear to lack truly relevant education.
- For many, their English is inadequate, particularly in technical areas.
- Staff consultants as opposed to external consultants are better to work with from the point of view that they use the BSO institution to support their consulting activities, whereas, a serious deficiency with external consultants is that they do not keep the BSO informed of what they are doing so that in their absence follow-up is difficult.
- Consultants from for-profit BSOs seem to have a keener understanding of the relationship between services and clients.
- Many not-for-profit BSO consultants lack confidence. They do not appear to take initiative in maintaining good contacts with their SME clients.
- Consultants generally lack strong selling and negotiating skills.
- Consultants say they are more effective when working in a team because they are better able to tap team and organizational resources.

Price Waterhouse sees changing the current BSO consulting mentality from a manager-driven activity to a team driven one as vitally important. Ways of achieving this will center around continued training and building BSO human resource skills internally. Discussing other approaches and highlighting the merits to these alternatives, as well as working with BSOs to set new organizational objectives and to develop better human resource development standards will be key to a new way of doing business.

Below is the Consultant Target Tracker that highlights achievements of quarterly and cumulative targets.

Consultant Target Tracker

Task	Target Description	Project Target	1997 Target	1997 Actuals				Totals	
				Q1	Q 2	Q 3	Q 4	1997	Cumulative Project %
II. Consultant Skills Development									
1. BSO consultants selected	# of consultants interviewed and selected	90	90	0	0	38	40	78	87%
2. Conduct training: Consulting Skills I	# of courses conducted	5	2	1	0	0	0	1	20%
3. Conduct training: Consulting Skills II	# of courses conducted	5	1	0	0	0	0	0	0%
4. Conduct training: Business Skills I	# of courses conducted	5	1	0	0	0	1	1	20%
5. Facilitate BSO consultant accreditation with SMEF	# of BSO consultants accredited	70	-	-	-	-	-	-	-
6. Negotiate and finalize SME financing package	# of SME loan packages completed	96	6	nd	64	48	40	152	158%
7. Carry out SME TA assignments	# of TA assignments completed	270	30	1	0	0	6	7	3%

C. Small and Medium Enterprises (SMEs)

Technical Assistance. Fourth quarter technical activities with SMEs has resulted in an evolution in how *FIRMA 2000* delivers technical assistance to SMEs. While some SMEs will still require longer-term technical assistance involving several weeks, many SMEs only want and can afford shorter inputs of half day to three days. To address SME's shorter-term needs, *FIRMA 2000* is identifying volunteer experts who can invest longer periods of time in the field providing a series of tightly structured technical and management-related services which SMEs have communicated

having a strong interest. The "Menu of Technical Assistance Offers and Sample Deliverables" is provided in Annex B.

There were 51 days of technical assistance inputs during the 4th quarter, covering six assignments. These included:

1. Financial analysis, business plan development and finance sourcing for M&M, a small bottled water (Jurassic Crystal) production company. This 21 day assignment was coordinated through the Zelów BSO.
2. Business expansion and foreign market entry strategic advice to TEGA, a hat manufacturing company selling mostly to Eastern European markets currently, but wanting to enter the US market. This 8 day assignment was also coordinated through Zelów BSO.
3. Quality control and marketing for the Jurmark meat processing plant. The technical assistance included extensive advisory inputs in factory cleaning and sanitation, pre-operational inspection, food handling practices, product receiving procedures, increasing production capacity, product quality, product improvement, new product development, and marketing and promotion. This 12 day assignment was provided through Kutno BSO.
4. Production process and technical procedures improvements for the M&M water bottling company. After having completed the business plan for expanding production, M&M received 4 days additional technical assistance to aid them in improving their production line to meet expansion requirements. The 4 day assignment was coordinated by Zelów BSO.
5. Quality control, new product development and improving the production process of G&W Klaczynscy's ice cream and bakery operation. This 3 day assignment was organized by Mielec BSO.
6. Strategic and financial analysis of an acquisition proposal of a local grainery being considered by AGROL, an agro-business company. This 3 day assignment was coordinated by Walbrzych BSO.

Date	USExpert	Technical Assignment	SME Assisted	BSO involved	Days LOEffort
1. July	Durning Lavelle Moriarty	Strategic Plan & Fin. An.; financing; (water)	M&M Water	Zelów	2 5 14
2. Aug-sept	Flicker	Market expansion (hats)	TEGA	Zelów	8
3. Sept	Stranick	Quality control; marketing; (meat)	JURMARK	Kutno	12
4. Sept	Huffman	Inventory mgmt; production; (water)	M&M Water	Zelów	4
5. Sept	Huffman	Production; quality control (ice cream/bakery)	G&W Wklaczynscy	Mielec	3
6. Sept	Huffman	Strategic planning; due diligence (agro products)	AGROL	Walbrzych	3
Totals	5	6	5	4	51 days

US volunteer experts. Involvement of volunteer experts overall has been successful and clearly has brought value to the SMEs they assisted. The technical assignments to SMEs, as seen in the chart above, were carried out by US volunteer experts with the exception of the Chief of Party's (Lavelle's) work with an SME client for the development of a business plan. Most volunteer experts are well experienced in their technical field and leave behind a product the SME can use and is happy with. As *FIRMA 2000* continues the fielding of US volunteer experts, the project is becoming more adept at identifying the right match of assignment-to-volunteer. Frequently asking the question about "What makes for a successful volunteer field assignment?" is a valuable question worth asking repeatedly. The answer is multi-leveled and breaks down into four categories: first, developing the scope of work (SOW); second, recruiting the volunteer expert; third, carrying out the field assignment; fourth, doing the post-assignment evaluation.

At the front end of the process a successful volunteer assignment starts with a solid understanding of the SME firm's problem, followed by developing a clear and well-written scope of work (SOW), in cooperation with the BSO consultant. The SOW is passed on to the ACDI/VOCA recruiting office in the USA for follow-up action in identifying suitable candidates whose resumes reflects competence in the technical area. Short-listed resumes are passed to *FIRMA 2000* and shared with the BSO involved. The BSO reviews the resume with the SME and responds to *FIRMA 2000* with an approval or a request to see more resumes.

Once the volunteer expert candidate is approved and an assignment date is fixed, the USE is fielded and carries out the assignment with the SME firm. *FIRMA 2000* periodically contacts the US volunteer expert, BSO consultant and the SME to learn how the assignment is progressing and to manage any real or potential problems. At the completion of the assignment, an evaluation is performed by all three parties involved with the project – the SME, the BSO consultant and the U.S. volunteer expert -- and given to *FIRMA 2000*. The purpose of these evaluations is to aid in constantly improving the overall assignment process.

Feedback from BSOs, SMEs and *FIRMA 2000* staff about what makes a successful assignment is almost totally focused on the qualities of the volunteer. Commonalities of volunteers completing successful assignments include:

- Being competent in the technical area of the SME need
- Being adaptable to changes in plans and circumstances at the assignment site

- Minimizing extra non-assignment related work for *FIRMA 2000*, the BSO or the SME
- Focusing on the job not on outside issues
- Maintaining a positive attitude about Poland and the potential of the SME
- Flexibility in addressing other matters that come up in the assignment that prove to be central to the problem the SME is facing
- Open and positive communications with the BSO consultant and the SME manager and staff.

SME Workshops and Training. As detailed in Annexes L and M, twenty-one BSOs are regularly providing training to SMEs with 2,807 participants in 81 different training sessions during the past nine months. The top four training topics include: ISO 9000, Strategic Planning, Labour Market and Workers' Rights, and Effective Selling and Communications.

Three of the six separate one-day Performance Benchmarking seminars which were co-sponsored with EXPROM II were conducted this quarter. Participant SMEs were from six industry sectors – foundry, medical equipment and supplies, textiles, automotive components, furniture and plastic products. The participant SMEs have been selected to participate with European firms in Performance Benchmarking studies. The BSOs which hosted the seminars in this quarter were Katowice, Lodz and Walbrzych (See Annex K for details of participants and content of seminar). The benchmarking seminars were organized to assist SMEs in understanding data collection requirements and a number of the performance measures. Knowing where his/her firm stands with respect to competitors will let the manager know what problem areas exist, and thus what to improve to be more efficient, productive, and competitive.

Selected BSOs were responsible for coordinating the seminar presentations. A number of BSOs have indicated that SMEs have contacted them inquiring about future seminars. It is expected that in February, after the Benchmarking studies have been completed for the furniture and automotive components sectors that the SME participants will request technical assistance from *FIRMA 2000* to help address performance weaknesses.

Impressions of SMEs from field staff provide some insights about the sector the BSOs are serving:

- SMEs are vibrant with a strong intuition for seeing a business opportunity.
- They have enormous capacity to accept and manage risk.
- They want good value for their money.
- In many cases, they have a low level of trust for BSOs and are skeptical about the value of business services from them.
- SMEs are not convinced that BSOs can deliver high quality services.
- They frequently require convincing to see where and how they can benefit from consulting services.
- Some SMEs would prefer to deal with *FIRMA 2000* directly, especially when there is a poor professional relationship with the local BSO.
- When SMEs don't pay for consulting services, they often don't take them seriously.
- SMEs want services that quickly and positively affect their firm's operation.

Below is the SME Target Tracker that illustrates this quarter's and year-to-date cumulative progress against project targets.

SME Target Tracker

Task	Target Description	Project Target	1997 Target	1997 Actuals				Totals	
				Q1	Q2	Q3	Q4	1997	Cumulative Project %
III. SME sistance									
A. Technical Assistance									
1. USE implements tailored technical assignment	# of SME consulting assignments utilizing US expert paired with BSO consultant	270	30	0	1	0	6	7	3%
2. 10% TA assignments to women-owned/managed SMEs	# of SMEs receiving TA which are woman- owned/managed	27	3	0	0	0	0	0	0%
3. SMEs contribute to cost recovery of BSO TA	# of SME consulting assignments in which the SME contributed to the cost of the TA	180	10	1		0	4	5	3%
4. CARESBAC clients receive SME TA	# of Caresbac clients receiving TA through BSP	27	3	1	0	0	1	2	7%
B. Financial Services									
1. Select participant banks	# of banks identified and selected to participate in SME lending support program	45	2	0	0	0	0	0	0%
2. Identify and select non-bank financing sources	# of non-bank financing sources identified and selected to participate in SME lending support program	7	1	0	0	2	5	5	71%
3. Finalize SME financing deals	# of SMEs receiving financing	92	2	0	51	56	43	150	163%

D. SME Business Financing

It is rather clear that a few of the BSOs are truly active in capital sourcing and others have great potential as financial intermediaries. Thirteen (13) BSOs were responsible for packaging 152 loans, resulting in 89 loan closings, and successfully obtaining investment capital for 61 additional clients. (Annex R provides details of the thirteen BSOs' efforts during the past nine months in obtaining financing for SMEs.) These combined efforts to secure both debt and equity for clients resulted in obtaining a total PLN 41,324,058 of financing for SMEs. However, two of the BSOs – Doradca in Gdynia and Total Consulting in Poznan – were responsible for the lion's share of the financing (43% and 32% respectively) obtained with the Rzeszów BSO the next closest contender with 10%. But closer scrutiny of the data reveals that average deal size is greatly skewed -- Doradca had only one deal but it was very large, (PLN 18,000,000 in equity), which constituted 44% of the total volume of financing obtained by all thirteen BSOs; and Total Consulting had two loans valued at PLN 13,250,000 or 32% of the total financing. In some respects more notably, the following four BSOs had the greatest volume of loans packaged, however, there are very wide ranges in average loan values and the results of their efforts in terms of loan closings:

Zelów	39 loans pkgd	4 closed (10% success rate)	PLN 711,800 (177,950 avg)
Jaroslawa	30 loans pkgd	25 closed (83% success rate)	PLN 275,000 (11,000 avg)
Jelenia Góra	22 loans pkgd	21 closed (95% success rate)	PLN 995,000 (47,380 avg)
Rzeszów	22 loans pkgd	6 closed (27% success rate)	PLN 4,400,000 (733,33 avg)

While some of the BSOs financing efforts are impressive, there is a great deal of work to do among the majority of the BSOs to improve financial skills of their consultants and to better enable the BSOs to offer this as a service to their SME clients. To this end, the BSO assessments were

reviewed to identify BSOs with capacity to secure SME financing. Individual team members will explore with the BSOs their interest in working with *FIRMA 2000* to improve the financial skills of their staff and bank linkages. *FIRMA 2000* staff assigned to the financing practice area will meet with banks and BSOs to develop a clear understanding of what is feasible and what steps are involved for BSOs to successfully work with local banks or other financial institutions and programs to facilitate SME financing. Plans are currently underway to develop and/or adapt a software "tool" with integrated balance sheet, income statement and cash flows to help with business/strategic planning and developing financial projections.

E. Communications and Public Relations

Media Initiatives. *FIRMA 2000's* media coverage consistently has led to a number of inquiries from potential SME clients. This quarter two articles were featured in "Twój Biznes" about Projekt *FIRMA 2000* and the Konin Regional Development Agency reprinted information about *FIRMA 2000* in its newsletter. (see Annex S for details of coverage). A press release was written and sent on diskette to all BSOs for them to subsequently add their center's name and contact information. This initiative was designed to alert the local business communities in the participating regions about Projekt *FIRMA 2000* and to encourage the BSOs to develop relationships with their local media. Follow-up by BSOs resulted in one BSO press release that has been published and a number of others "in progress" (see Annex TU for sample Press Release and article). Radio Kielec interviewed a *FIRMA 2000* staff member to discuss the assistance available to SMEs through Projekt *FIRMA 2000*.

Newsletter Training and Distribution. The newsletter training sessions begun during the third quarter were completed in July. Representatives from 27 out of 29 selected BSOs attended the one-day workshop. The first edition of MiS was successfully published and distributed by 24 centers (both Wroclaw BSOs were unable to participate due to the flood; and the second issue was published by 25 BSOs (See Annex VW for both Polish and English editions of each issue). As of the 4th quarter, the newsletter is being direct mailed to 3,657 SMEs. BSOs were requested to compile databases of at least 100 targeted SME clients and return them to *FIRMA 2000*. Twenty BSOs completed the task and sent the information back to the project.

SME success stories. For information about *FIRMA 2000* assisted SME successes, please see newsletters in Annex VW. Background information is presented about the Sharp-Hanmar company and the technical assignment carried out in cooperation with the Plock BSO and Caresbac and the M&M Import Export water bottling company and the technical assignment carried out in cooperation with the Zelów BSO.

Technical Publications. Each issue of the newsletter contains a special insert on different aspects of business, e.g., financial management, marketing, management and planning, personnel management, etc. These small, easy to understand publications are printed on colored paper representing each of the primary technical areas and are designed to be kept by readers. Issue #1 contained "Tips on How to Avoid Cash Shortages" and Issue #2 contained "How to Develop Your Market Focus," both by June Lavelle. There have been several requests by readers for permission to reprint the inserts in other publications. Permission is being freely granted, however, *FIRMA*

2000 is requesting attribution and copies of publications in which the re-printed inserts appear. Annex XYZ contains re-prints from the 4th quarter.

Problem areas. Many BSOs share similar problems regarding their understanding and use of outreach, marketing and public relations. Some common problems include an inability to clearly articulate the scope and content of services they provide their clients, having only a vague concept

of a marketing strategy or plan but without any defined steps for completing it and no targets set, and poor to non-existent media relations. Future activities include:

- Production of promotional pieces to advertise upcoming U.S. expert trainings
- Production of a *FIRMA 2000* brochure
- Babson College interns – Assessment of service offerings (planned – January)
- Continued efforts to improve media relations at the local level
- Cooperation with American corporate identity firm regarding capability statements/positioning/image with for profit BSOs (potential- February)

F. Monitoring and Evaluation

Upgrading in the monitoring and evaluation system has improved reporting capabilities because information can now be statistically analyzed to discern potential relationships between different aspects of performance as well as gauge aggregate progress of all of our clients and factors affecting that performance. The data gathered from the BSOs can also be analyzed statistically to gauge progress providing hard input into *FIRMA 2000* evaluation efforts, and to aid in planning.

The Quarterly Performance Monitoring Report of the Chief of Party is the consolidated primary data from all of the data collection instruments (see Annex A for the detailed report). In analyzing this data for Quarters II, III, and IV for the Annual Report, it has become clear that for many of the financial indicators use of the median provides an incomplete picture because the “median BSO” in our population of BSOs is considerably below the top performers (upper quartile) and much closer to the weakest BSOs (lower quartile). The range of operating income in the 4th quarter, for example, is extremely great -- from PLN 2,734 to 991,800. For many of the financial indicators to more meaningful, therefore, we have supplemented the median which was used in last quarter's report with an additional statistic which better represents the top heavy end of the range, i.e., the mean which is an average that is particularly influenced by upper extremes. Where appropriate, we have substituted the median with mean in the spreadsheet section of the report.

The Chief of Party's Quarterly Performance Monitoring Report provides the project with a strong diagnostic tool for management and planning purposes. The following represents some of the highlights:

BSO Performance Measures. During the 4th quarter, the BSOs as a group have made a rather significant improvement in their respective bottom lines with mean operating income to mean operating expenses leaping from 53.4% to 91.3%. More importantly, the mean income rose dramatically (approximately 49%) while mean expenses actually dropped by 12%.

Total number of clients receiving consulting services in Quarters II and III were 454 (average of 227 per quarter) increasing to 256 clients in Quarter IV (13% increase) with fees from consulting services increasing their contribution to the total operating income. Total number of participants in trainings in Quarters II and III were 1,856 (average of 928 per quarter) increasing to 952 in Quarter IV (3% increase) with training fees contribution to total operating income dropping from 11.2% in

Quarters II and III to 7.7% in Quarter IV. To better explain what's going on in terms of training income, it is important to understand that the data reveals that six BSOs charged nothing for their trainings and the range in training income for those which did charge was also quite extreme, e.g. in Quarter IV income from training ranged from PLN 550 to PLN 134,708.

There was a 19.6% increase in the extent to which grants and subsidies covered operating expenses with 8 out of 23 BSOs receiving subsidies during Quarters II and III increasing to 11 out of 25 BSOs receiving subsidies during Quarter IV. The increase is primarily attributable to the SME Foundation's new Step I program.

BSO Clients. As mentioned above, total number of clients receiving consulting services in Quarters II and III were 454 (average of 227 per quarter) increasing to 256 clients in Quarter IV (13% increase). This is a much more plausible figure than what ten of the not-for-profit BSOs were reporting for their baseline data for 1996 (e.g., the number of clients receiving consulting services in 1996 was reported at 1,154 served by ten BSOs.) As pointed out in last quarter's Chief of Party report, this was an indication that the majority of the EU-PHARE funded Business Support Centers for which we had data were counting virtually everything as a "consulting service." Our efforts to obtain more reliable and therefore meaningful data from the BSOs appear to be paying off. However, it must be noted that a great deal of effort has gone into calling back BSOs for purposes of data verification and clarification.

Although we have data from only four of the seven *FIRMA 2000* clients receiving technical assistance from a U.S. expert, we can begin to track client service needs by primary categories. The primary categories thusfar are Market Analysis/Market Research (73%), Financial Analysis and Management (59%), Marketing and Sales Management (58%) and Operational Analysis and Management a distant fourth (24%). Once we get to a sufficient volume of deals with enough consultants reporting this data to constitute a representative sample, then feeding this data back to the BSOs will be of great value.

BSO Consultants Activity. Although we have data from only four of the seven *FIRMA 2000* clients served, we can report that of the 261 Polish consultants' hours expended on these four clients, only 73% were billable and the majority of those billable hours (58%) were delivered by external consultants rather than staff consultants. Although we do not yet have enough data to determine the correlation between use of external consultants to BSO profitability, we will be analyzing the data to try to answer this question.

BSO Manager Development . The data collected for Quarter IV indicates that the BSO managers spent on average 8 days during the 4th Quarter in some sort of professional development activity. Although we don't have the exact number of BSO staff to compute the average number of days per staff person spent in professional development activities, we can conclude that the managers are consuming approximately 31% of the professional development time.

BSO Training Activity. A BSO's training program is a very important element of SME development services. Quality training is one of the most effective means to attract clients for follow-up consulting services. Twenty-one BSOs are regularly providing training to SMEs with 6,605 staff hours devoted to this activity, training 2,808 participants in 81 different training sessions during the past nine months. This is in addition to the *FIRMA 2000* sponsored Performance Benchmarking trainings which attracted 150 participants from 95 SMEs. The raw data reveals, however, that there are again great ranges among the respondent BSOs. For example, training participants ranged from 5 to 178 per given BSO during Quarter IV, with staff hours devoted to training activities during the same period ranged from 4 to 1,560. It is rather obvious that the BSO that devoted 1,560 hours to training SMEs during one quarter might need to re-think this strategy.

Financing SMEs. There appears to be a rather large increase (approximately 28%) in the number of SMEs seeking assistance in obtaining financing from BSOs over figures reported for the last reporting period. But, this does not hold true for the number of loans packaged, closed or for equity deals consummated (-28%, -12%, -27% respectively). The year to date figures show that thirteen BSOs are currently active as financial intermediaries with 152 loans packaged resulting in 89 loan closings, and 61 equity investments successfully closed with total volume of financing obtained for SMEs at PLN 41,324,058. Significant, however, is the huge increase in the monetary volume (714% increase) between the first two quarters combined and the 4th quarter. Upon further scrutiny of the data, it is revealed that there were three very large deals closed during the 4th quarter which greatly contributed to this increase.

Resource Development. It is important to note that on average only 26% of the BSO managers' time is devoted to marketing and sales. This statistic, coupled with information gathered from the on-site assessments indicating that the majority of the BSO managers have 100% responsibility for marketing and selling their BSOs' services, provides some understanding of the root problem of so many of the BSOs' failure to attract SME clients. In response to this weakness, we will be focusing a great deal of our TA to the BSOs on marketing and sales efforts. In general, there is little change between the reporting periods in terms of break out of the BSO managers' time.

Client Development. Although we know that three industry-specific groups have been recently formed by three BSOs – Jelenia Góra, Gdansk Free Enterprise Association, and Zelów -- we do not have any data as yet regarding the number of SMEs in these groups. Additionally, the Kielce BSO and the Plock BSO both facilitate CEO groups but again, we do not have data regarding the number of SME participants. We will be working with each of these BSOs to help them strengthen these groups.

Policy Intervention and Public Education. There are significant increases in the BSOs' efforts to influence government policies or regulations. The average number of staff hours devoted to such activity in each of the 2nd and 3rd Quarters was 353 hours which increased to 509 hours during the 4th Quarter, an increase of 44%. The range was rather significant (10-250 hours in quarters II and III; 3 to 200 hours in Quarter IV) but given that there are a number of RDA among the BSOs and at least one BSO is a Chamber of Commerce with lobbying as a primary objectives, this data is not so surprising. Similarly, there was a 19% increase in staff hours devoted to public education and an 89% increase in the number of participants.

Public Relations. Prior to participation in *FIRMA 2000*, only three BSOs published a newsletter. During the 4th Quarter, 23 of the BSOs published issue # 1 and 25 of the BSOs published Issue # 2 of MIS, the *FIRMA 2000* newsletter. This represents a very large increase (733%) in efforts to

disseminate information to SMEs. With readership currently at 3,657 SMEs, this is already 22% greater than we expected. 16 BSOs were active in Quarters II and III from a public relations standpoint, generating 108 media articles or coverage of their activities. However, it is notable that 2 of these BSOs were responsible for 56% of this activity. During Quarter IV, 15 BSOs were covered in 53 print media articles or radio/television coverage of their activities but again, two BSOs were most active representing 47% of the total media coverage.

G. Program Collaboration Efforts

EXPROM II. As mentioned above, *FIRMA 2000* has been collaborating closely with EXPROM II, the export promotion project of the Polish Foundation for Small and Medium Enterprise Promotion and Development (SMEF). During the 4th quarter three of six separate one-day benchmarking seminars were hosted by three of the *FIRMA 2000* BSOs -- Katowice, Lodz and Walbrzych. Participant SMEs were from six industry sectors – foundry, medical equipment and supplies, textiles, automotive components, furniture and plastic products. The participant SMEs have been

selected to participate with European firms in performance benchmarking studies. Following the studies, *FIRMA 2000* will be providing project participants with technical assistance to address the areas of need identified in the studies. Additionally, *FIRMA 2000* has initiated discussions with EXPROM II to design a project which would focus on the needs of SMEs which either are or would like to be suppliers to the automotive industry.

STEP 1. Discussions were held this quarter with the Polish Foundation for Small and Medium Enterprise Promotion and Development (SMEF) regarding collaboration with SMEF's Step 1 program. Three BSOs from Projekt *FIRMA 2000* will participate in the Step 1 program, these include BSOs from Zelów, Jelenia Góra, and Gdansk. The purpose of the Step 1 program is to assist in the promotion of SMEs in the Polish economy, assist in developing a network of advisory, training and information services for SMEs, and promotion of an entrepreneurship culture in the private sector. To achieve this, four industrial sectors are targeted for specialized training and technical assistance leading to improved capacity and productivity. The four sectors included in Step 1 are metalwork, garment manufacturing, footwear manufacturing and electronics and electrical products manufacturing. By focusing on these four sectors, Step 1 hopes to achieve improved management and technologies application within participating SMEs. As with *FIRMA 2000*, Step1 aims to strengthen consulting skills of Polish technical service providers. *FIRMA 2000* will work with SMEF to provide volunteer experts capable of providing technical assistance and leading seminars on key topic areas within two of the four targeted sectors.

Ministry of Economy and Agency for Technology Transfer. Work with the Department of Economic Strategy of the Ministry of Economy and the Agency for Technology Transfer has resulted in collaboration on the translation and distribution of "Pathways to Technology," a manual for establishing a technology transfer center. Four of the *FIRMA 2000* BSOs (Mielec, Szczecin, Walbrzych and Gdansk) are currently being targeted by the Agency as potential technology transfer centers.

Citizens Democracy Corps. CDC provided *FIRMA 2000* two volunteer advisors during the fourth quarter for a total of 26 work days. These latest volunteers bring the CDC input up to a total of five volunteers out of the agreed upon twelve which are to be made available to *FIRMA 2000*. The volunteers assisted *FIRMA 2000* field staff with conducting BSO assessments and developing enhancement plans.

Babson College. Collaboration with Babson College has been particularly fruitful with the fielding of Eric Moriarty, an MBA intern, who spent the summer working on various projects including BSO assessments and assisting in the preparation of the financial analysis and business plan for M&M Import/Export, the water bottling company. Future plans include using five Babson interns to work with Project *FIRMA 2000* during the month of January to systematically assess the BSOs' markets and product/service offerings, develop a written profile of each BSO's market position, outline a marketing plan, and develop a composite or sector report of all BSOs which identifies broadly the types of services being offered and markets (clients) being served.

Development Strategies Corporation. Collaboration with Dr. Peter Bearse, monitoring and evaluation specialist for Project *FIRMA 2000*, has resulted in fifteen days of volunteer assistance from one of his employees who came to Poland this summer to conduct research for his doctoral dissertation. Robert Humphrys worked with *FIRMA 2000*'s monitoring and evaluation staff to transfer information from each of the data-gathering instruments we use to consolidate this information into spreadsheet databases and provide documentation in code books for each spreadsheet. In addition, he created a three-sheet scoring workbook to rank BSOs in terms of how well they fit our desired profile. This work will be followed-up by Dr. Bearse who will create an appropriate data collection instrument which the field staff can use when making BSO site visits.

H. Project Issues

While BSP has made significant progress in developing strategies for increasing SME projects and BSO technical assistance inputs and in realizing practical results leading to meeting project targets, several issue areas still exist, these include:

BSO-related:

- Accelerating the BSO deal flow with SME clients
- Strengthening BSO marketing with SMEs
- Assisting BSOs in developing capability to maintain fuller SME project pipelines
- Developing a team-based consulting culture inside the BSOs
- Selecting a replacement BSO

Consultant-related:

- Completing consultant selection
- Continuing consultant training
- Strengthening the financial and analytical skills of consultants
- Strengthening the consultant's ability to develop clear and accurate scopes of work

SME-related:

- Accelerating volunteer expert inputs to SMEs
- Identifying stronger English language talent for certain technical subjects with BSOs that have weak English skills

I. Next Quarter Activities

Next quarter's activities will address project issues stated above as well as focus on activities that move the project forward toward meeting targets and deliverables. These include:

For the BSOs:

- Develop clear and manageable BSO work plans for each BSO
- Develop SOWs for BSOs needing technical assistance and/or specialized training
- Assist BSOs with data base development of prospective clients
- Leverage consultant training back into BSOs to develop an institution-based consulting culture with a strong focus on teamwork, understanding the BSOs' capabilities and the clients' real problems and needs
- Strengthen BSO marketing and negotiating skills
- Strengthen BSO financial skills

For consultants:

- Select remaining consultants
- Assist in developing consultants' individual improvement plans, encourage implementation and monitor results
- Continue consultant training with strong focus on developing financial and analytical skills
- Promote a team mentality amongst consultants to aid in creating stronger BSOs

For SMEs:

- Follow-up with BSOs on recruiting clients targeted for short-term technical service offerings
- Develop SME workshop and seminar schedule and implement accordingly

III. PROJECT OPERATIONS

A. Operations Overview

Project operations are in full swing. All administrative support and project management implementation and financial and impact reporting systems are fully in place. Annex U provides the Task Management report for the 4th Quarter. The arrival of new computers has necessitated the need for in-house training so that all staff are skilled in the basic use of the new software. This will take place early next quarter.

B. Staffing

During mid-quarter both the public relations coordinator and the receptionist resigned. Their replacements are being identified and re-hiring will be completed by the beginning of the next quarter.

C. Procurement

Project procurement is now completed. While the only new project vehicle was stolen before it could be used, ACDI/VOCA insurance covered the replacement. A new replacement vehicle was immediately ordered and is now on project and in use. It has been specially fitted with various security devices to impede future theft.

D. Budget and Level of Effort

Budget

Of the total project budget of \$ 6,819,998, approximately \$ 1,525,947 has been expended in the first year, or about 22.4%. The remaining unexpended budget is \$ 5,294,051. Current obligated funds total \$ 4,910,330 and as of the end of the fourth quarter (October 1, 1996- September 30, 1997) approximately \$ 1,525,947 or 31% of the obligated funds have been expended with a remaining balance of approximately \$3,384,383. (See Annex O for more budget details).

Level of Effort

Overall level of effort on the project is 7,085 person days of which approximately 3,495 person days, or 49% has been used. (See Annex PQ for level of effort information).

IV. CONCLUSION

A. Observations

Use of *FIRMA 2000* services. While BSO selection has been completed, approximately four BSOs are still not taking advantage of *FIRMA 2000* services. This suggests that more needs to be done to assist these BSOs in knowing what services exist and how to tap them. In some cases, however, these are not the issues for why these BSOs don't use *FIRMA 2000* services. For some, they simply lack the motivation to do so. Dividing *FIRMA 2000* program staff into a cohesive BSO management team with each having individual responsibility for a select set of BSOs will help address this problem by making team members more attentive to these BSOs special problems and needs and accountable for results. Because results are the focus of *FIRMA 2000*, all staff are frequently reminded that "activating" resources is not synonymous with "utilizing" resources and resource utilization does not translate into desired results unless there is a clear focus on goals and objectives. For this reason, the COP has developed a BSO work plan template in which it must be clearly articulated by staff and BSO manager just how a task/deliverable is expected to meet not only a BSO's needs but meet the project's goal of delivering technical assistance, training, and services to SME clients on a cost recovery basis.

US Volunteers expert selection. Several initiatives were undertaken with VOCA to examine where volunteer expert selection can be improved, both at the front end of the scope of work development process and at the back end in matching volunteer expertise with SME need in the recruiting exercise. It was agreed that a more diligent effort will be made to develop tighter SOWs and review a broader selection of volunteer expert candidates. This extra special effort has clearly resulted in a more consistently high quality volunteer.

High SME turn out for technical seminars. Through carefully developed and marketed short-term training initiatives for SMEs dealing with high value-added topics such as benchmarking, inventory control and activity based costing, to name a few, there has been a strong show of SME participation and follow up interest in technical assistance. The use of short-term (three-day) cost-effective inputs seems to be an important key to SME motivation to participate. By keeping the TA short and focused it reduces cost and time away from work for the SME. Longer-term TA will continue to be made available to SMEs that have a specific need for it. It is clear, at least for the moment, that fewer SMEs need long-term TA and many more need very specific and high value one to three day-type assistance. This reality may provide an opportunity for *FIRMA 2000* to do more effective piggy-backing of volunteer expert SME assignments.

B. Significant Developments

The strategy of providing short one day technical seminars to SMEs is initially proving to be a service SMEs can afford and are interested in using. If the SME response continues to be strong this will form a solid basis for a strategy of expanding assistance to SMEs and promoting the BSOs and *FIRMA 2000*.

Thanks to quick action and follow up by the project operations manager and ACDI/VOCA home office clarification on insurance coverage, the stolen project vehicle has been quickly replaced and is now operational.

At the end of this quarter five senior level *FIRMA 2000* staff have begun working individually with BSOs. This is aimed at strengthening the *FIRMA 2000* relationship with the BSOs and to improve the access and effective use of project resources at the BSO level.

